

Romania

Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
Type:	♦ Defined-benefit		
Participation:	♦ Mandatory		
Management:	♦ Publicly-managed		
Financing:	♦ PAYGO		
Coverage:	♦ All employed individuals		
Eligibility:	♦ Age 62 years (men) or age 57 (women) and fulfilled minimum contribution period		

Challenges Facing Pension System

- ☐ Economic conditions
- ☐ Demographic shifts

Summary of Current Pension System

The Romanian pension system covers all employed individuals, except for farmers who have a separate pension system. Special systems have also been designed for non-agricultural workers, craftsmen, artists, lawyers and priests.

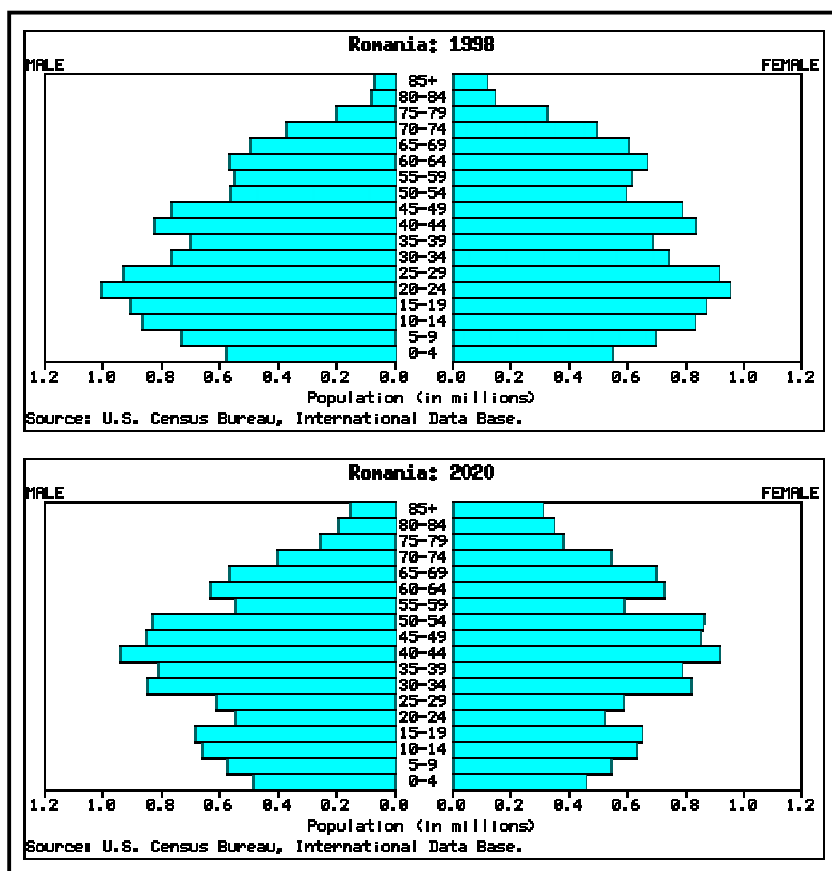
Similar to other Central and Eastern European countries, the Romanian pension system is financed on a pay-as-you-go (PAYGO) and provides defined-benefits. In addition to providing pension benefits, the state social insurance scheme covers disability, survivor benefits, sickness, maternity, child care and child payments.

Employers are required to contribute to the social insurance fund. This mandatory contribution amounts to 15 percent to 35 percent of payroll, depending on working conditions. Generally for normal working conditions, the contribution amount is 25 percent of payroll. The central government is responsible for any deficits incurred by the social insurance system. Employees must contribute 3 percent of their salary to a supplementary pension scheme.

Individuals become eligible for old-age pension when they have fulfilled the following: (1) they have reached the minimum retirement age, which is age 57 years for women and age 62 years for men and, (2) they have fulfilled the minimum contribution period, which is at least 25 years of qualifying employment for women, and at least 30 years qualifying employment for men. Special retirement conditions apply to

those working in dangerous conditions and for women who have raised at least three children.

Pension benefits are generally 54 percent to 85 percent of the reference wage, which is dependent upon the work category and wage levels. The reference wage is based on average base earnings of the best five consecutive years during the last 10 years. The supplementary pension is between 7 percent to 16 percent of the reference wage, depending on the years of contribution (minimum is five years of contribution and maximum percentage is earned for over 25 years of service). In addition, social assistance is provided on means-tested basis



SELECTED INDICATORS		
Demographic	Year	
	1998	2020
Total Population (in thousands)	22,396	21,789
Life Expectancy at Birth (Years)	70.47	76.95
Total Fertility Rate (Child Born per Woman)	1.17	1.46
Age Dependency Ratio (percent)	29.6	39.2
	1980-2000	2000-2020
Average Annual Rate of Population Growth (percent)	0.0	-0.1

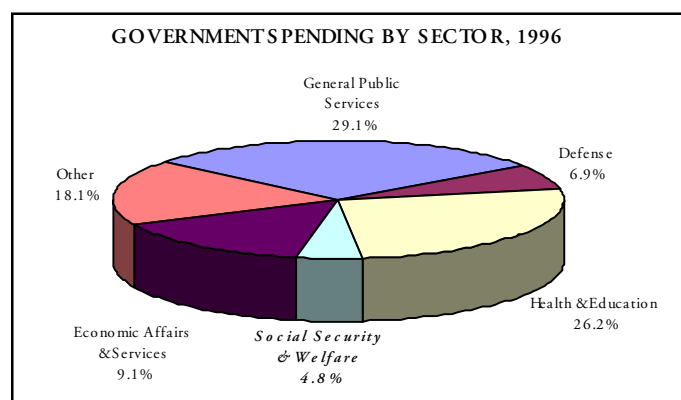
Source: U.S. Bureau of the Census. International Data Base.

Economic	1996
GNP (PPP in billions) ¹	103.5
GNP Average Annual Growth Rate, 1995-1996 (percent) ¹	4.4
GNP Per Capita (in PPP) ¹	4,580
Inflation Rate (percent) ²	38.8
Labor Force Participation Rate (percent) ³	47.3
Unemployment Rate (percent) ³	6.7

Source: ¹World Bank; ²IMF; ³International Labour Office.

Pension	1997
System Dependency Ratio, 1995 (percent) ¹	52.3
Employee Contribution for Pensions (percent of earnings) ²	3.0
Average Employer Contributions for Pensions (percent of payroll) ²	25.0
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP, 1996 (percent) ¹	5.8

Source: ¹IMF; ²U.S. Social Security Administration.



Source: International Monetary Fund. Government Finance Statistics Yearbook, 1997.

for those individuals ineligible for supplementary pension.

Challenges Facing Pension System

Pension expenditures in Romania have been increasing. Total pension expenditures were 3.8 percent of GDP in 1980, which almost doubled to 7.2 percent a decade later. Demographic and economic factors will play an important role in the pension system's future spending.

The Romanian population is aging and declining due to low fertility rates. In 1990, about 16 percent of the total population were 60 years old and older; however, by 1996, this proportion had risen to about 18 percent. In the same time period, the population under 15 years old had declined by 1 million individuals. This impacts the pension system, as a smaller proportion of current contributors would support current

pensioners. In the early 1990s, the Romanian economy experienced adverse economic conditions as the country moved to a market-oriented economy (from their former command economy).

Pension Reform Efforts

The World Bank in 1997 approved a US\$50 million Social Protection Adjustment Loan to Romania. A component of the loan includes the protection of pension benefits. A comprehensive reform package, which includes a reform of the public pillar and the creation of a fully-funded, mandatory second pillar is currently in preparation.

The country launched a reform program (in conjunction with the World Bank and the International Monetary Fund) to improve the economy in 1997. The economic program includes reducing the fiscal deficit, liberalizing the foreign exchange market and tightening monetary policy.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓	✓	✓
Formulation of proposals	✓	✓	✓
Development of draft legislation			
Introduction of legislation by parliament			
Review of legislation by parliament			
Passage of legislation by parliament			
Implementation of legislation			